

## Community-Based Forest Enterprises in Nepal: An Analysis of Their Role in Increasing Income Benefits to the Poor

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**Abstract** This paper examines the effective practices and constraints of community-based forest management enterprises (CBFEs) in Nepal in providing income benefits to the poor. The tenure reform clarity and strengthening of tenure rights at community level through various CBFM programs in Nepal in the last few decades has enhanced opportunities for the rural people to benefit from forest-based enterprises. However, a key concerns as these programs have advanced over the years has been whether the poor benefit from them given their high dependence on the forests. To examine this question, 28 CBFE from Nepal's mid-hills and mountain districts were selected purposively from among forest user groups (FUGs) engaged in income-generating activities, varying in their size of membership, use of forest products and stage of growth. These CBFEs have been broadly categorised into FUGs, networks, cooperatives and companies. The contribution from enterprises to the household economy was found to be greatest from companies, followed by cooperatives and then networks. The effective practices of the CBFEs in increasing income benefits were found to include representation of the poor and marginalized groups in executive committees in the FUGs-based enterprises, targeted employment of the poorest in the collection of non-timber forest products and in processing units in networks, and enabling the poor to own share capital in cooperatives and companies. The common constraint across all these categories was found to be lack

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of adequate capital to sustain the enterprises without external support. The specific constraints were small membership and land size among FUGs, lack of legal recognition of networks, lack of management skills and member discipline for cooperatives, and lack of raw materials and marketing capacity for companies. The paper also discusses: the importance of further policy support to formalize forest user groups into networks, cooperatives and private companies; value addition to forest products; and capacity building for CBFEs, government line agencies and business services providers.

**Keywords** Non-timber forest products · Forest user groups · Community forestry · Leasehold forestry

## Introduction

The many benefits that the poor derive from forests and the potential to increase these benefits have been demonstrated in various studies (e.g. Angelsen and Wunder 2003; Belcher et al. 2005; Sunderlin et al. 2005). Recognizing the high poverty incidence in forest communities, there is an apparent renewed interest, especially among development agencies, in using these resources to reduce poverty. Interest and efforts are especially directed at developing forest-based enterprises, given the increasing demand for forest products and the recognition of the increasing integration of forest communities in the market economy, with their increasing need for cash (Ruiz-Pérez et al. 2004).

Recent efforts to develop forest-based enterprise development also coincide with the institutionalization of community-based forest management (CBFM) in many developing countries (Food and Agriculture Organization (FAO). 1999; Alden Wily 2002; Nurse and Malla 2005), whereby greater access and participation in the management of forest resources is granted to forest communities.<sup>1</sup> With the prevalence of CBFM in most developing countries, there is a good reason to expect increase in economic activities among forest communities, and eventually increase in their income and improvement of their livelihood. Despite their dominance and popularity, these positive ends are not yet that apparent in many forest communities under CBFM. There are many possible reasons, including the high level of poverty among forest communities (which reinforces other constraints), the various constraints inherent to forest, as well as constraints under a communal system of resource management. However, encouraging aspects evidenced by published cases of communities engaged in forest-based enterprises. Many authors have emphasized the need for more documentation of what works and what does not in actual implementation of enterprise development initiatives under CBFM (e.g. Agrawal 2003; Pagdee et al. 2006).

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<sup>1</sup> CBFM is used here to refer to all *community-based* forms of forest management, regardless of the degree of participation of the community, placing emphasis to the shift of forest management from a dominantly government-managed to a dominantly community-managed forest.

Nepal is one of the pioneer countries to have instituted CBFM (Kanel et al. 2005). It currently has six CBFM programs,<sup>2</sup> two of which are particularly widely implemented, namely Community Forestry (CF) and Leasehold Forestry (LHF). The CF program commenced in the early 1980s with leasing sizable forest areas to village communities while the LHF program came later in the 1990s leasing degraded forests to targeted poor households. Both CF and LHF are recognized for improving conditions of forest resources but in the early stages of program implementation their performance has been criticized for having limited livelihood impact. This was mainly attributed to their weakness in encouraging income-generating activities (Joshi et al. 2000; Malla 2000; Springate-Baginski et al. 2001; Baral and Thapa 2003; Pandit and Thapa 2004; Bhattarai et al. 2007). Both programs have recently put greater emphasis to improving livelihoods by promoting enterprise development activities.

The term *enterprise* generally refers to a business entity engaged in productive activities that are aimed at generating profit (Macqueen 2004). This definition would include informal micro-enterprises but in order to provide focus on enterprise development within the context of CBFM, a more narrow definition is adopted here. The term enterprise is defined here as a formal organization legally recognized to transact business and make a profit (following Agrawal 2003). The forest user groups (FUGs), particularly CFUGs and LFUGs, are legally recognized because they are registered with and regulated by the District Forest Office (DFO). The identification of effective practices of the CBFEs followed the process of enterprise establishment and expansion from FUGs to networks, cooperatives or companies, focusing on practices in achieving profitability and distributing revenue generated. Since CF and LHF programs differ in their approach,<sup>3</sup> which strongly affects the resulting enterprises, distinctions were made depending on whether a CBFE is mainly composed of CFUGs or LFUGs.

This paper focuses on the practices of Forest User Groups (FUGs) which are the basic CBFM organizations primarily composed of households participating in the various CBFM programs in Nepal. It examines particularly the experiences of the well-established Community Forest User Groups (CFUGs) and Leasehold Forest User Groups (LFUGs) engaged in forest-based enterprises (hereinafter referred to as community-based forest enterprises or CBFEs<sup>4</sup>). It focuses on the enterprise model in order to analyse and highlight some policy implications for increasing income benefit to the poor as the community-based forest enterprises are established and expanded.

<sup>2</sup> These programs promoting CBFM are Community Forestry (CF), Leasehold Forestry (LHF), Watershed Management (WM), Collaborative Forest Management (CFM), Integrated Conservation and Development (ICD) and Buffer Zone around a protected area (BZ) (Ojha et al. 2007).

<sup>3</sup> LHF targets the poorest households giving them specific rights (e.g. exclusive access, right to cultivate) over degraded forest through lease. LFUGs have relatively small and homogeneous membership (7–10 members, who are poor according to Biggs and Messerschmidt 2003) and operate small and often relatively unproductive land compared to CFUGs. CFUGs could have 10–850 members (Roche 1996), and generally have larger and more productive land.

<sup>4</sup> The term CBFE should serve more to emphasizing the policy context under which forest enterprises are established and are operating, rather than to make a distinct classification within forest enterprises, given the ambiguity of the term ‘community-based’.

The main research question of the paper is ‘What can be learnt from existing CBFEs under the community and leasehold forestry programs in Nepal to increase income benefits to the poor?’ To address this question, the paper identifies practices and constraints of various types of CBFEs, identifying key factors for their success or failure in achieving their various objectives. Drawing from this analysis, policy implications are drawn on how income opportunities for the poor from CBFEs in Nepal could be further improved.

## Research Method

The forest-based enterprises for the study were selected from 13 districts across Nepal using the criterion that they be engaged in the commercialisation of forest products. The study districts include Sankhuwasaba, Terathum and Dhankuta from the eastern region, Ramechhap, Sindupalchok, Dhading and Chitwan from the central region, Tanhu and Palpa from the western region and Jumla from the mid-western region, and Dadeldhura from the far-western region of Nepal (Fig. 1).

The selection of sample of CBFEs to be studied was initiated in late 2005. Due to the absence of any nation-wide list of CBFEs in Nepal, general mapping of CBFEs was carried out in 13 selected districts. The main criteria for selection were implementation of various CBFM programs and projects and continuing research related to forest enterprise development in these districts. For instance, of the selected districts, eight were from the Hill Leasehold Forestry and Forage Development Project (HLFFDP), one was from the Western Upland Poverty Alleviation Project (WUPAP) and four were from the Adaptive Collaborative Management (ACM) research project of the Center for International Forestry Research (CIFOR). The other criteria to capture the variation included: (i) districts which had experience of implementing of pro-poor LHF cooperatives, such as 20 cooperatives in six districts (Chitwan, Makawanpur, Dhading, Sindhu-palchok, Ramechhap and Tanhu Districts); (ii) type of registration of the CBFEs, e.g. under the cooperative, private or company or *Civil Society Act*; (iii) property rights



**Fig. 1** Map of Nepal indicating case study districts

regimes, i.e. private, community, leasehold and government; (iii) elevation, from inner Teri (Chitwan, 57–300 m), Churia hills and Siwalik (Makawanpur, 700–1500 m) to Mahabharat Lekh (Sankhuwasabha, 1500–3000 m); (iv) utilization of non-timber forest (NTFP) products (asparagus roots, broom grass, bamboo craft, lokta and allo fibre processing, medicinal aromatic plant processing and essential oil production), (v) and having substantial experiences of adaptive collaborative management in community forestry (Kaski and Sankhuwasaba district).

Based on these criteria, a total of 168 enterprises were initially mapped, including 67 cottage enterprises and companies registered with the Department of Cottage and Small Industry Office (DCSIO) or the Department of Industry (DoI), 37 cooperatives registered with the District Co-operative Office (DCO), and ten networks and 54 FUGs engaged in forest enterprises (Table 1). From the preliminary list of 168 CBFs, 28 CBFs were selected based on criteria of district-level recognition, community-based or collective ownership, NTFP-based activities, pro-poor focus, common property resource base, proven record of success, addressing both economic equity and environmental protection, and secure access of the poor to resources.

Of the selected CBFs, cooperatives—including CF, LHF and general cooperatives—constituted the highest percentage (39%), followed by CF or LHF enterprises, companies and CF or LHF networks. No LF-based group or network had formed a company. All the companies were formed of CF-based groups or networks. On the other hand, there were three types of cooperatives, namely LHF-based cooperatives, CF-based cooperatives and general cooperatives (Table 1). Probability sampling was not employed because the criteria listed above did not apply equally to all CBFs selected.

The detailed study of the selected enterprises was undertaken through a review of CBFE documents, focus group discussions (FGDs) with CBFE officers and members, and interviews of key informants. A total of 26 FGDs were conducted using a checklist of questions on CBFE operations, constraints and practices. The checklist was designed and tested after careful review of various CBFE documents. A semi-structured questionnaire sought information on common concerns including history, problems and breakthroughs of the CBFs, their success factors and further constraints they face. Emphasis was also given to their incentive systems, benefit-sharing arrangements, and practices that target the poorest members. The perceptions of various local groups within the institutions and other key stakeholders regarding CBFE initiatives, partnership and transparency of fund use, and constraints and

**Table 1** CBFs selected by type

| Enterprise type      | Total number of enterprises | Number (%) of enterprises selected |
|----------------------|-----------------------------|------------------------------------|
| Company              | 67                          | 5 (18)                             |
| LF-based cooperative | 12                          | 3 (11)                             |
| CF-based cooperative | 7                           | 2 (7)                              |
| General cooperative  | 21                          | 6 (21)                             |
| CF/LF enterprise     | 51                          | 7 (25)                             |
| CF/LF network        | 10                          | 5 (18)                             |
| Total                | 169                         | 28 (17)                            |

challenges faced by local communities, were also probed during interviews. A total of 120 key informants were interviewed, ranging from 3 to 5 per CBF E.

## Survey Findings

The findings are discussed mainly in two parts: financial growth of the enterprises and income to the poor families, and effective practices and constraints, including those due existing policies of the CBF Es in increasing income benefits to the poor.

### Financial Growth of the Enterprises and Income to the Poor Families

Economies of scale of the enterprise were found to depend on various financial variables, including the shares and savings collected by members, membership fees, donations and technical support by external agencies, and income from training (Table 2). Economic development efforts become meaningful only when they serve and benefit the members for whom they were launched. About 75% of the selected CBF Es had the share collection system to benefit their members (Table 1). All of these CBF Es could legally enter into financial transactions and be affiliated either with the District Cottage and Small Industry Office (DCSIO) or with the District Co-operative Office (DCO). The rest were CFs or LFs and their networks. The largest volume of share deposits was operated by the CBF Es registered as companies, followed by CF-based cooperatives, LF-based cooperatives and general cooperatives (Table 2). CF and LF networks did not have any shares collection as they did not have the legal status to enter into financial transactions.

The policy of a CBF E largely determined the allocation of, and access to, its shares, along with income distribution and wealth. Generally, CBF Es registered with the DCSIO or under the *Company Act* dealt with a larger volume of shares than cooperatives, because most companies had traders and businesspersons as their shareholders. Generally, the economic growth of CBF Es tended to accelerate with increasing volume of shares allocated. Share volume also helped to mobilize public

**Table 2** Funds available with enterprise from different sources (NR)

| Type of enterprise       | Financial growth source |         |                            |   |             |
|--------------------------|-------------------------|---------|----------------------------|---|-------------|
|                          | Share amount            | Savings | Income from NTFP marketing | Other incomes (donations, membership, training) | Total funds |
| Company (5)              | 61,344                  | 4,905   | 64,409                     | 1,89,134  | 3,19,792    |
| LF-based cooperative (3) | 4,400                   | 92,552  | 6,700                      | 1,07,732  | 2,11,384    |
| CF-based cooperative (2) | 60,677                  | 17,500  | 33,100                     | 4,400   | 1,15,677    |
| General cooperative (6)  | 1,796                   | 61,556  | 3,487                      | 36,097  | 1,02,936    |
| CF/CF-based network (9)  | 0                       | 11,177  | 5,555                      | 7,411   | 24,143      |
| LF/LF-based network (3)  | 0                       | 18,658  | 9,171                      | 72,291  | 1,00,120    |

US\$1 = Nepalese rupees (NR) 76

Figures within parentheses indicate the number of CBF Es under study

resources to create shares for ultra poor households. However, the impact of such share deposits largely depended on the magnitude and quality of growth of shares.

Savings performance not only a prerequisite for credit but also as an important financial source for the poor. Furthermore, they are a useful entry point for mobilizing the poor and an important variable for raising the economies of scale of an enterprise. They set in motion the process of mobilization of the poorest of the poor members of the enterprise. For any enterprise it is important to know the interest rate offered on savings as well as that charged on loans. The difference between these two is generally designed to recover the cost of the enterprise. Most of the enterprises had provided loans at lower interest rates than those charged by many credit institutions. In many instances, the interest rate did not exceed 18% per annum. To ensure that the financial services offered by them reached the poorest of the poor, many enterprises focused on such members to provide loans. For example, Mahadev Bahu-uddheshiya Sahakari Sanstha charged only 10% annual interest to the poorest of the poor households, and Padampokhari Grass and Grass Seed Development Cooperative Ltd charged 12%, both of which were almost half of what other credit institutions charged on loans. The savings collection of the LF-based cooperatives, averaging Rs 92,552 per enterprise, was exceptionally high compared to other types of enterprises (Table 2).

Each CBE had accumulated a substantial amount of fund through donations, membership fees, training and demonstration plots. On average, an enterprise earned NRs 14,816 every year. Company CBEs earned the highest income from these sources, followed by LF-based cooperatives then by networks. Among all categories of enterprises, CF-based cooperatives earned the least, because their members did not have to pay membership fees. If paid, the money would become a common property and would be used mostly for community development activities, and members would not be entitled to spend this money for personal income generation. Tinjure Hattisar NTFP Pvt Ltd received a substantial amount of donations for its revolving fund, which augmented its funds.

### Contribution to Household Economy

The contribution from enterprises to the household economy was greatest in cooperatives and CF and LF networks (Table 3). Due to the scarcity of non-farm employment opportunities, small landholdings and availability of large forests in hills and mountains, people were heavily engaged in community-based enterprise business. Overall, most of the poor and a substantial proportion of better-off and wealthy households were engaged in CBEs mainly for processing of NTFPs or manufacturing of goods either for subsistence living or for commercial gains. Some people, for example in Jumla and Sankhuwasabha districts, having become aware of market demands, participated in NTFP marketing through their enterprises. In each of the study sites where community-based NTFP companies existed, NTFPs contributed almost half (averaging 42%) of the household income of poor families (Table 3). On the other hand, in the areas of LF and LF-based cooperatives, the NTFP contribution to the economy of poor households ranged from 6 to 27% (Table 3).



**Table 3** Annual income from NTFPs and livestock per household

| Type of enterprise       | Income (NR) | Contribution to income (%) |
|--------------------------|-------------|----------------------------|
| Company (5)              | 2,569       | 42                         |
| LF-based cooperative (3) | 361         | 6                          |
| CF-based cooperative (2) | 1,664       | 27                         |
| CF/CFUG network (9)      | 824         | 14                         |
| LF/LFUG network (3)      | 607         | 10                         |
| General cooperative (6)  | 1,101       | 18                         |
| Total (average)          | 1,182       | 19                         |

### Effective Practices and Constraints According to Type of CBFEs

*Forest user groups* are established following the implementation of the respective CBFM programs, i.e. leasehold forestry (LHF) or community forestry (CF), hence the enterprises in which they can engage are strongly influenced by the conditions and support provided by each program. This constraint is apparent between LFUGs and CFUGs. As the initial mapping of CBFEs revealed, few small LFUGs are involved in forest-based enterprises. Only limited income opportunity exists from commercialisation NTFP grown on leased land due to the small land area. The NTFP collectors from leased land earned an average income of only about Rs 250 (USD 4) in 1 year (15 July 2005 to 14 July 2006). Moreover, the majority of NTFPs were collected from nearby forests, not from the 3.5 ha land leased to each household. The LFUG selected for this study is one of the few which uses leased land for forest products because usually the beneficiaries under LHF are handed over degraded (and less productive) forest land, and are encouraged to engage in livestock production. LFUG enterprises are, therefore, largely concerned with livestock, such as raising goats for meat and cows for milk. These activities are mostly at the individual household level, and not collective activities. Group enterprises within LFUGs are limited to collection of savings and disbursement of loans (often at a subsidised interest rate).

CFUGs are allocated larger and more productive forest area than LFUGs. However, CFUG land is not allocated to individual households but rather as a common property resource for all CFUG members. This common ownership is often reported to be a constraint to enterprise development because not all the members (particularly the poor) have similar incentives to invest in the common forest, knowing that the gains will be distributed approximately uniformly among members. On the other hand, the policy of common ownership has its rationale<sup>5</sup> and the challenge for CFUGs is to encourage investment in and enterprise activities

<sup>5</sup> The main rationale of the common ownership of land by forest users within CFUGs is to promote equity and resource sustainability. Given the limited land area and often large membership, a proportional distribution of land to individual members would be impractical because land parcels would be too small and would cause conflict because some parcel would certainly be more productive than others. With regard to governing the use of forest resources, it is easier for the government to regulate a group rather than many individuals.



from the forest resources. One effective practice by CFUGs is allocation of a parcel of the total CFUG land for the production of selected forest products for commercial purposes. Of the six CFUGs selected for this study, three have allocated forest land for NTFPs and two for cultivation of cash crops, including ginger, turmeric and vegetables. Because CFUGs often have many members, not all of whom can be involved directly in cultivation on CFUG land, some CFUGs select a few of their members to undertake cultivation on their land. On the CFUG land, a common practice is the organisation of subgroups (or *tole*), mostly composed of poor women selected through a wealth-ranking exercise, who are responsible for cultivation of the commercially important timber and non-timber forest products. Selection of the poorest members for the CFUG enterprises has ensured that they are not excluded from such initiatives.

Like LFUGs, most of the CFUGs are engaged in savings and loan services. Both of these services are often made possible by the provision of external grants and revolving funds obtained from donor agency programs in addition to the capital that the CFUGs and LFUGs generate through interest earned on savings. The provision of savings and loans services is an important practice because it encourages the establishment of individual enterprises, both directly based on forest products and indirectly through non-forest activities such as beekeeping and making bamboo handicrafts. Diverse investments reduce risks not just for the FUGs but also for individual members who usually have diverse sources of income. Group enterprises within FUGs are still underdeveloped, having limited scale in terms of capital or production capacity. To minimise constraints due to their limited scale, various FUGs have formed into larger organisations including networks, cooperatives and companies.

*Networks* are organisations of FUGs formed for the purpose of promoting their common interests, including promotion of common enterprises. Three CFUG networks and one LFUG network were involved in assembling products from various FUGs but the assembled products were later sold to private traders in the community. On one hand, this limited collective enterprise activity within networks can be attributed to the fact that the networks were established mainly with facilitation from external agencies such as the government line agencies and NGOs. Networking is a strategy of these service providers for achieving greater efficiency, which makes the promotion of networks an effective practice for service providers. On the other hand, the networks are constrained to engage in group enterprise activities because they are not legal business organisations and are not liable as a group, and thus are not authorised to engage into formal business transactions with large and formal buyers (e.g. importers). Knowing this, some networks have expressed their intention to register as cooperatives, a legal business organisation based on the *Cooperative Act, 1992*.

Compared to the less formal LFUG networks, LFUG-composed *forest-based cooperatives* have more visible and transparent group enterprises other than the provision of savings and loans services. However, their enterprises are still livestock-based, particularly milk collection and selling. NTFP cultivation is still limited, mostly because these cooperatives have been formed only recently and cultivation was commenced only in 2005. Some important constraints were

observed among the LFUG cooperatives. Membership of a LFUG does not automatically lead to membership in the co-operative, hence not all LFUG members become members of the cooperatives (which are usually supported by external organisations to channel support for the poorest) unless they purchase capital shares. This excludes the poorest LFUG members who cannot afford to purchase shares. On the other hand, an effective practice in some LFUGs to overcome this problem is encouragement of savings among LFUG members, including forced savings—in cash or in kind—and later converting the savings into shares. Another effective practice is the diversification into other enterprises, and particularly into selling consumable goods to members, rather than just in collective marketing of members' products.

The selected CFUG cooperatives were relatively more developed forest-based enterprises than LFUG cooperatives. Also, various replicable practices were identified among the CFUG cooperatives. The NTFP and Forest Products Management Co-operative Limited (NFPCL), which is composed of 25 CFUGs, demonstrated success in collective marketing of various NTFPs produced by its members. The co-operative adds 50% mark-up on the products when it sells these to traders. Due to its limited capacity in finding markets, the Leutifedi Herbal Processing Co-operative Limited made a contract with the Natural Resource Institute to sell its product (essential oil extracted from citronella and lemon grass).

The exclusive membership of the LFUG- and CFUG-based cooperatives could be a limitation considering that their revenue depends on the transactions made by members and how much they patronise their co-operative. Thus, the more exclusive the co-operative is, the fewer the transactions made and the less the revenue generated. This constraint is overcome by general cooperatives, which do not make membership exclusive but are composed of CFUGs and LFUGs, as well as institutional and individual members (with different prices for institutional and individual shares).

Due to its egalitarian ownership model where members have equal rights (i.e. one-member-one-vote) regardless of the number of shares owned, the co-operative model is often favoured for enterprises established to benefit the poor. However, this model may not be attractive for the wealthier members or potential investors who may want greater control of their investments or remuneration proportional to what they invest. An alternative model is the usual private company model which, unlike cooperatives, is controlled on the basis of value of shares owned.

Compared to the above enterprise types, *forest-based cottage industries and companies* are more specialised because they are engaged in processing fewer and higher-value products with high capital investment. Being primarily profit motivated and having voting rights based on the total capital value of shares owned (as opposed to cooperatives which are primarily service-motivated and have equal voting rights among members), companies attract more well-to-do groups to join, which often results in higher capital investment and higher quality management. If unguarded, however, the inclusion and dominance of the rich in a community-based enterprise may not result in increased benefits for the poor. A challenge for forest-based companies aiming to benefit the poor is attracting investors while maintaining control for (though not necessarily by) the poor. An effective practice of one

company, Tamakoshi Forest Products Processing Private Limited (TFPPL), is the allocation of a revolving fund (by the Nepal Swiss Community Forestry Project) for the poorest of the poor members to buy shares in the company. Another company, the Tinjure Hattisar NTFP Enterprise (THNTFPE), allowed village traders to buy up to 25% of the shares of the company. The inclusion of private entrepreneurs adds more capital to the business and also brings in business experience, which usually is lacking among the poor. An interesting ownership structure is observed with the Rhododendron Herbal Juice Production Committee; the four CFUGs that composed it contributed NR 10,000 each (USD 133), thus having equal ownership of shares. This organisation is operating like a company, being registered with the DCSIO, but is governed by a General Assembly composed of 10 users from each member CFUG, thus resembling a co-operative organisational structure.

Other practices of including the poor within the company model include the reservation of committee seats for the poorest (two out of seven seats) by the Machhe Pokhari Handmade Paper Enterprise (MPHPE) to ensure that interests of the poor are represented in the committee, and the training and recruitment of the poorest individuals as harvesters of raw materials from CFUG forest (THNTFPE) and as factory workers (MPHPE). Regarding resource sustainability, an effective practice was demonstrated by the TFPPL where it conducted an inventory of the community forest to identify the number of Bael plants and monitor the fruit production per hectare per annum. The sustainable harvesting level of Bael fruit was determined, and this information was incorporated in TFPPL's Operation Plans.

The above case studies demonstrate the changing needs and priorities of CBFEs as they grow, expand and specialise. FUGs in particular, face constraints due to their small membership, low capital and land. The networks, although they have larger membership and area, are constrained mainly by their weak organisation and lack of capacity. Cooperatives and companies, on the other hand, have more members, capital and land and their main constraint are the specialised business functions such as overall management, production and marketing. These constraints as well as some effective practices by the CBFEs are summarised in Table 4.

### Constraints Due to Existing Policies

There are various policies which discourage forest-enterprise development. As earlier demonstrated, these include the policies embedded in the design of the two CBFM programs, such as those concerning access rights and criteria of people and land eligibility to be under the program. In addition, royalties and taxation affect the profitability of several CBFEs. For instance the *Local Governance Act 1999* has given power to District Development Committees (DDCs) to promote NTFP-based enterprises in each of the districts surveyed. Instead of subsidising, however, the DDCs impose tax at a rate of 10% of the royalties earned by the DFO. Furthermore, an extra tax—the rate varying between products—is charged to the traders when the same product goes outside the district. Invariably, the trader takes a profit when dealing in NTFPs, which will ultimately be deducted from the collectors' or producers' profit.

**Table 4** CFBEs: Constraints and practices by enterprise type

| Enterprise type                  | Constraints   | Effective practices   |
|----------------------------------|---|---|
| FUGs                             |   |   |
| LFUGs                            | Membership is mostly comprised of the poorest (i.e. those with limited financial and technical capacity).<br>Degraded land.<br>Small membership and land area.  | Provision of range of support including organisational capacity building, individual training and (flexible) credit.<br>Improvement of soil fertility through cultivation of grasses and agro forestry species.<br>Federation into networks and formation of formal business organization (e.g. cooperatives, private companies). |
| CFUGs                            | Group ownership of forest (limited direct incentive for members to improve land productivity).<br>Exclusion of poorest members.   | Zoning, with allocation of land for cultivation.<br>Targeting of poorest members for special support (e.g. lower loan interest rate, training, priority collectors and labourers).  |
| All FUGs                         | Limited group capacity for collective enterprise.<br>Limited institutional and individual capacity for enterprise engagement.<br>Limited resources for capacity building.   | Formalisation into a business organization (i.e. cooperative, private company).<br>Capacity building activities for FUGs.<br>Capacity building activities for individual members.<br>Federation and formation of networks and accessing of external support.  |
| Networks                         | No legal personality to engage in enterprise as a group.<br>Intended primarily for accessing external support and are in transition towards becoming cooperatives.<br>Limited group capacity for collective enterprise. | Formalisation by establishing cooperatives (exclusively or with other FUGs, private individuals). Capacity building for the network organization (e.g. record keeping for transparency to FUG members).   |
| Cooperatives                     | Limited management and entrepreneurial capacity.<br>Limited marketing capacity.<br>Shortage in raw material supply.   | Institutional capacity building (e.g. co-operative management).<br>Contract marketing.<br>Measurement of sustainable level of harvesting.<br>Formation of more exclusive and formalized enterprise (i.e. private company).  |
| Cottage industries and companies | Limited technical and managerial capacity.<br>Shortage in raw material supply.  | Technical skills training.<br>Measurement of sustainable level of harvesting and enforcement of rules.  |

There still exist policy restrictions on harvesting and commercialising several NTFPs. For instance, the sale of some tree-based NTFPs (e.g. leaves of yew *Taxus baccata*) and herb-based NTFPs (e.g. roots of spikenard) in their raw form is illegal in Nepal. Because of restriction on harvest of these NTFPs, people were found to have been involved in illegal harvesting. Several CBFEs were of the opinion that commercial use of these forest products should be legalised, which would provide incentive to protect these species.

There are regulatory constraints on exports of some products from Nepal. For instance, the CBFEs reported that there are several problems involved in selling essential oils (e.g. cinnamon and citronella) to India. Enterprises need to have a letter or a certificate of origin of the respective product endorsed by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), which is almost impossible for a small co-operative to obtain. Only companies registered with the Department of Industry (DOI) or with the DCSIO can obtain such a letter from the DOI, which requires a recommendation from the FNCCI. It is not easy to register as a company because registration comes with strict regulations. For example, based on the *Environment Protection Act 1998*, a registered company has to conduct an initial impact evaluation (IIE) if it harvests 5–50 tons of forest-based products per annum and an environmental impact assessment (EIA) if it harvests more than 50 tons per annum; both assessments incur high costs and are not affordable for many CBFEs.<sup>6</sup>

## Policy Implications and Conclusion

Based on the survey findings, a number of policy implications may be drawn on how to improve further the performance of CBFEs in Nepal, and thus increase income opportunities to poor members. Because their constraints are primarily due to their limited scale, FUGs (LFUGs and CFUGs) need to be federated into larger organisation to reduce transaction costs and increase bargaining power either in relation to market and external support transactions or to influencing policies affecting them. FUGs need to be formalised as business organisations because they cannot yet operate as legal business organisations. They should be registered as cooperatives or companies to enable them to transact with formal organisations such as banks and export buyers.

Support for networks needs to target their capacity to manage external grants, particularly record keeping and transparency, not just to satisfy the requirements of their supporting organisations but also to maintain trust among the FUG members. Many networks in fact indicated they were in transition to becoming more formalised business organisations, and these need assistance in designing their organisational setup and in registering with the appropriate regulatory body.

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<sup>6</sup> Despite the restrictive policies, there have been recent policies and programs that favour forest enterprise development, such as the ratification of the Herbs and NTFP Development Policy of 2005 which allowed greater incentives for FUGs to cultivate NTFPs, and the extension of support for LHF implementation in Nepal for eight more years from 2005.

Many of the cooperatives lack business management skills, hence intervention should focus on improving their management capacity. Maintaining transparency is especially important to maintain trust among members, considering that cooperatives are prone to domination by the elite. In addition, like FUGs, cooperatives could gain from federating into larger organisations because this would increase their cost-efficiency and bargaining power. A national federation of FUGs exists in the Federation of Community Forest Users of Nepal (FECOFUN) and Nepalese Federation of Forest Resource User Groups (NEFUG), but these organisations are more for lobbying rather than for enterprise operations. Opportunities exist for the formation of co-operative unions for the purpose of enhancing enterprise operations, based on similar products, location or input needs.

For companies, given their larger and more specialised operations, support is needed to ensure a reliable supply of high quality raw materials, cost-cutting measures, and marketing. Companies do not necessarily produce their own raw materials and they need to link and make agreements with producers to be able to reach and maintain adequate volume and quality of raw materials.

In actually achieving favourable policies, it is important to mention that CBFEs can play an important role in influencing the policy-makers and government line agencies to act in their favour. They could do this by strengthening their federation and unions such as FECOFUN and NEFUG (i.e. increasing membership and co-operation). They could seek better representation in forestry policy-making processes and thus be able to lobby for further reforms favourable to their interests.

Like CBFEs, donors have a crucial role in creating favourable policies because they have traditionally played an important role in promoting enterprise development in Nepal aside from the fact that they provide the money that enables implementation of forest policies, CBFM programs and enterprise development projects. Aside from influencing key forest policies and the CBFM program provisions, donors could encourage the institutionalisation of a constant dialogue among the stakeholders to promote pro-poor-focussed CBFEs. For provision of services, donors could support existing service providers including government line agencies and non-governmental organisations. As more CBFEs are established, expanded and federated, donors could also collaborate with government agencies to provide the necessary support such as a venue for shared learning between various organisations, which aim to promote the pro-poor focus of CBFEs.

The government agencies have their own mandates, and intervention directed at them could be designed to enable them to be more effective and efficient in carrying out these mandates. DFOs could be supported in their capacity to process applications for CF or LHF and to ensure that the FUGs make and follow their community management plans (i.e. monitoring). The same support for capacity building applies to the DCO, DSCIO and DoI—the agencies responsible for the registration and regulation of cooperatives and private companies—particularly with regard to their capacity to provide necessary services (e.g. provision of information) to the CBFEs. More importantly, the role of these line agencies needs to be clarified and defined with regard to CBFEs. For example, the authority that DFOs have over FUGs requires clarification when the FUGs are registered under the DCO or DSCIO, so as to avoid duplication, confusion or omission of support.

There is a need to promote policies that are more favourable to the development of forest enterprises, such as reducing taxes on forest products and simplifying the processes of obtaining collection and business permits. Related policies such as on banking support to FUGs also require revision, particularly devising alternatives to collateral because FUGs do not own the land handed over to them. There also appears to be a case for some reforms being carried out within CF and LHF programs, particularly the granting of more productive and larger areas of forest land. A follow-up intervention, of expansion and specialisation of CBFEs, is now needed to replicate the efforts to establish CBFEs for which membership includes CFUGs and LFUGs and even the private sector such as traders and individual investors.

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